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Feed millers of Shunde lead the Guangdong feed industry

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Report Highlights:

Mighty Shunde, with a population of .8 - 1.0 million plus 2.0 million in migrant workers, is Guangdong's number one feed producing city at 1.87 million tons in 2008. For the past five years, Guangdong has been the province with the highest production of feed. It alone produced 15 million tons in 2008. Shunde feed millers use imported U.S. soybean meal, DDGS, fish meal, fish oil and feed additives such as methionine and amino lysine. Read what the industry trends are and what this spells for U.S. exports.

General Information:

Overview

Shunde is a district of Foshan, the Guangdong's fifth largest city after Guangzhou, Shenzhen, Dongguan and Zhanjiang. Tiny Shunde, with a population of .8 - 1.0 million plus 2.0 million in migrant workers, is Guangdong's number one feed producing city at 1.87 million tons in 2008. Guangdong has been the province with the most production of feed for the past five years. It alone produced 15 million tons in 2008. Shunde feed millers use imported U.S. soybean meal, DDGS, fish meal, fish oil and feed additives such as methionine and amino lysine. This report is based on a number of interviews conducted with millers and Shunde feed industry association officials.

The Shunde Feed Industry Association plays a proactive role

The *Shunde Feed Industry Association* has 61 members that consists of large (annual production: over 100,000 tons), medium (50-100,000) and small (under 50,000) feed mills that together produce 70 percent of all feed made in Shunde. Shunde feed millers extend production to other areas in Guangdong. They produce one-third of Guangdong production, that is, 4-5 million tons of feed yearly. This translates to 320,000 tons U.S. soybean meal used as ingredient. Local millers mainly buy soybean meal from oil crushing plants in Dongguan which processes large amounts of U.S. beans.

Every year the association coordinates among its members to set informal market reference feed prices. Given its market share, such reference prices impact greatly on the pricing of feed products in Guangdong or even South China.

The association maintains good relationships with local government and works to vigorously defend members' interests. In 2006 and 2008, the taxation bureau attempted to impose a 4-5 percent of tax based on feed mill sales volume. Feed millers would have suffered great losses because of characteristically large sales volumes and narrow profit margins. The association successfully persuaded the government to maintain its taxation policy of 25 percent tax on profits.

Shared history with the States, industry trends

In the 1980's, when China opened its doors to the world, Shunde feed millers imported U.S. feed processing machinery from *California Pellet Mill* (CPM) to produce feed so their ties to the States run deep. Since then, Shunde's feed industry has been developing by leaps and bounds to meet fast growing demand from livestock (mainly poultry and swine) and aquaculture sectors. This regional industry shows the following trends:

1. **Getting larger.** The interviewed managers run plants with annual capacity from 100,000 to 400,000 tons. The largest miller in Shunde runs several big plants to produce 2 million tons of feed yearly. An interviewed manager plans to build a new 150,000 ton feed plant.
2. **Getting more integrated.** An interviewed feed miller also runs 30 swine farms producing 400,000 head yearly, the largest swine producer in Guangdong province. It also has its own slaughtering houses.
3. **Getting more specialized.** An interviewed feed miller cooperated with ASA-IM to develop an aqua feed formula containing high protein U.S. soymeal. The trial has been carried out in an offshore cage in Sanya to feed pompano.
4. **Accepting new inputs.** A local feed milling plant used the China's first ever import of U.S. DDGS to produce duck feed in 2007. Local millers are also considering importing U.S. soybeans by containers. At present, they buy soybean meal/oil from oil crushing plants and mix it in the feed.

Room for improvement

Nevertheless, Shunde millers face hurdles that prevent them from being on par with millers in developed countries.

1. **Need to improve efficiency with modern machinery.** A number of large millers still use old equipment imported two decades ago. They are labor intensive and less efficient. According to the association, in 2008, millers visited a modern and large Australian plant that requires only two workers to mix ingredients. The same work requires five workers in Shunde.
2. The above mentioned feed mill and swine farm manager plans to purchase **purebred U.S. swine** and advanced hog farm equipment/IT management solutions from the States.

Economic slowdown impacts feed production

The economic slowdown will eclipse five percent of Guangdong feed production in 2009. Main reasons are:

1. **Less meat consumption due to fewer migrant workers.** It is estimated that Guangdong has lost 10 million migrant workers because of the fall of overseas orders in 2009.
2. **Consumers' confidence affected.** People tend to restrain from spending such as on dining at restaurants.

In January-June 2009, the largest Shunde miller saw a drop of two percent in production compared to the same period in 2008.

However, in the mid- and long term, China feed production will rebound and stay the course with an annual growth of five percent. Chinese per capita grain consumption is still at a low level of 816 pounds, compared to 1,764 pound in developed countries. In the foreseeable future, China could reach a level of 1,323 pounds which means a huge demand for feed.

DDGS is the rising star

In 2008, U.S. DDGS exports to China climbed to 6,007 tons valued over US\$2.18 million, 78 percent was bound for Guangdong province, the largest feed producer in China. *(Note: for details about DDGS exports to South China, please refer to the Gain Report CH9611: U.S. DDGS dashes for China, mostly to the feed mills of Guangdong)*

In 2009, trade exploded. A veteran feed importer estimates that China would buy 400,000 tons U.S. DDGS by the end of 2009. Guangdong continues to lead with imports. According to another industry source, a large bulk grain vessel with 20,000 tons U.S. DDGS and other grains is heading to South China. Compared to containerized DDGS shipments, bulk vessels can significantly improve export volumes to China. It also demonstrates that Chinese has accepted DDGS as a viable and commonly used feed.



Golden U.S. DDGS at a Shunde mill



Bags of duck feed made with U.S. DDGS



Pallets of feed await shipping

(Source for all photos: ATO Guangzhou)



A truck loads up with duck feed

Usually, DDGS replaces cotton seed meal and rapeseed meal. According to a Shunde miller, 70 percent of DDGS are consumed by duck and 30 by swine, chicken and fish. It shows that there is still big room for improvement if more DDGS be used for swine, the No. 1 livestock in China.

As mentioned in GAIN report CH9611, the MOA feed registration requirement still presents a significant challenge for future and larger DDGS trade with China. It is noticeable that China AQSIQ issued a feed related importation quarantine regulation (No. 108) effective as of September 1, 2009. It states CIQ requests submission of MOA feed registration for certain feed products (DDGS is included) before releasing imports at entry ports. According to a DDGS importer, there is a grace period of six months for DDGS importation. As a result, current DDGS imports are not affected yet.

An interviewed Shunde miller keeps a close eye on U.S. DDGS quality. He tests every shipment thoroughly. Although being satisfied with U.S. imports in general, he did notice that several testing results showing high vomitoxin: 3,000-4,000 PPB. The normal level should be 500-1,000 PPB. High vomitoxin levels pose serious health treat to sows.

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